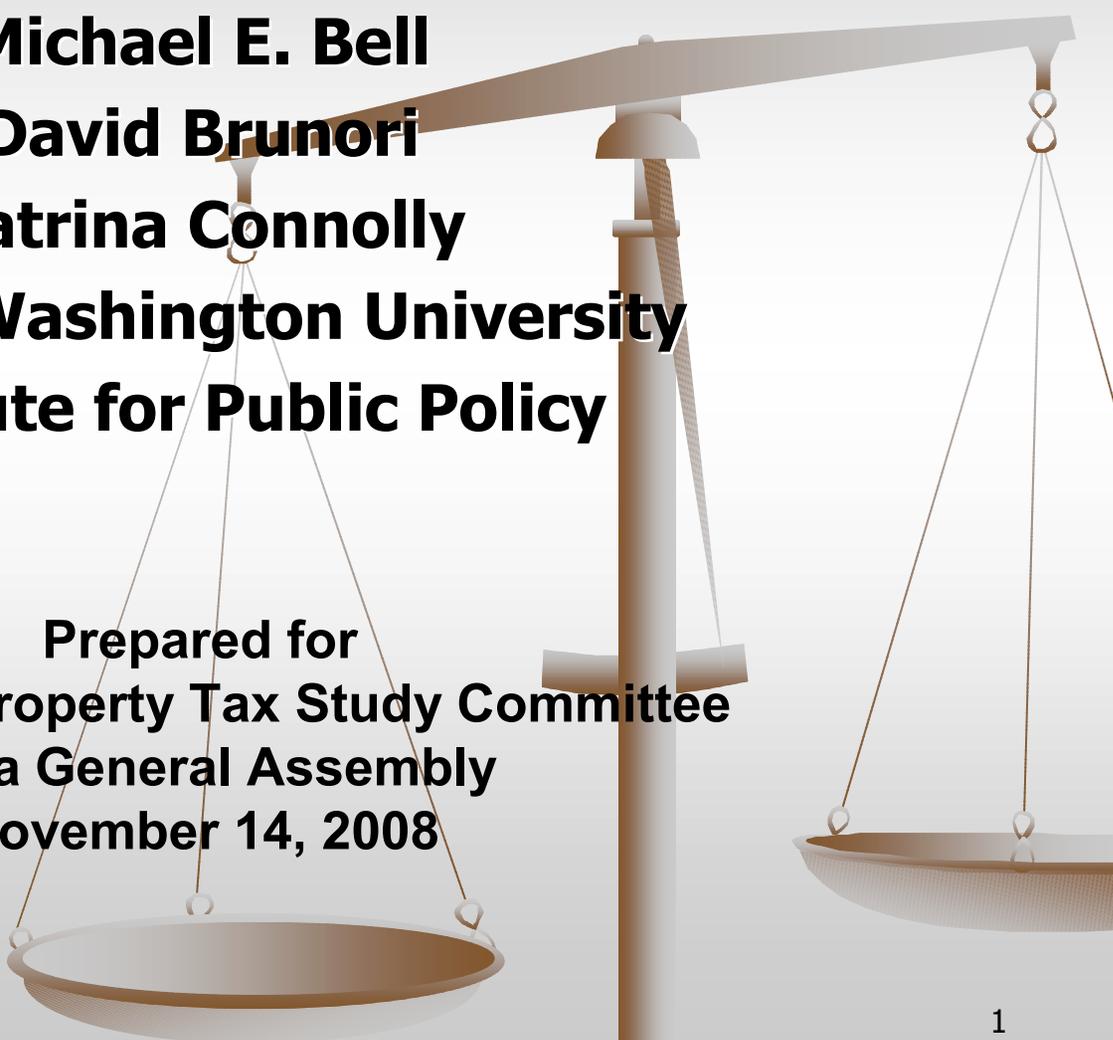


# Iowa Property Tax Report

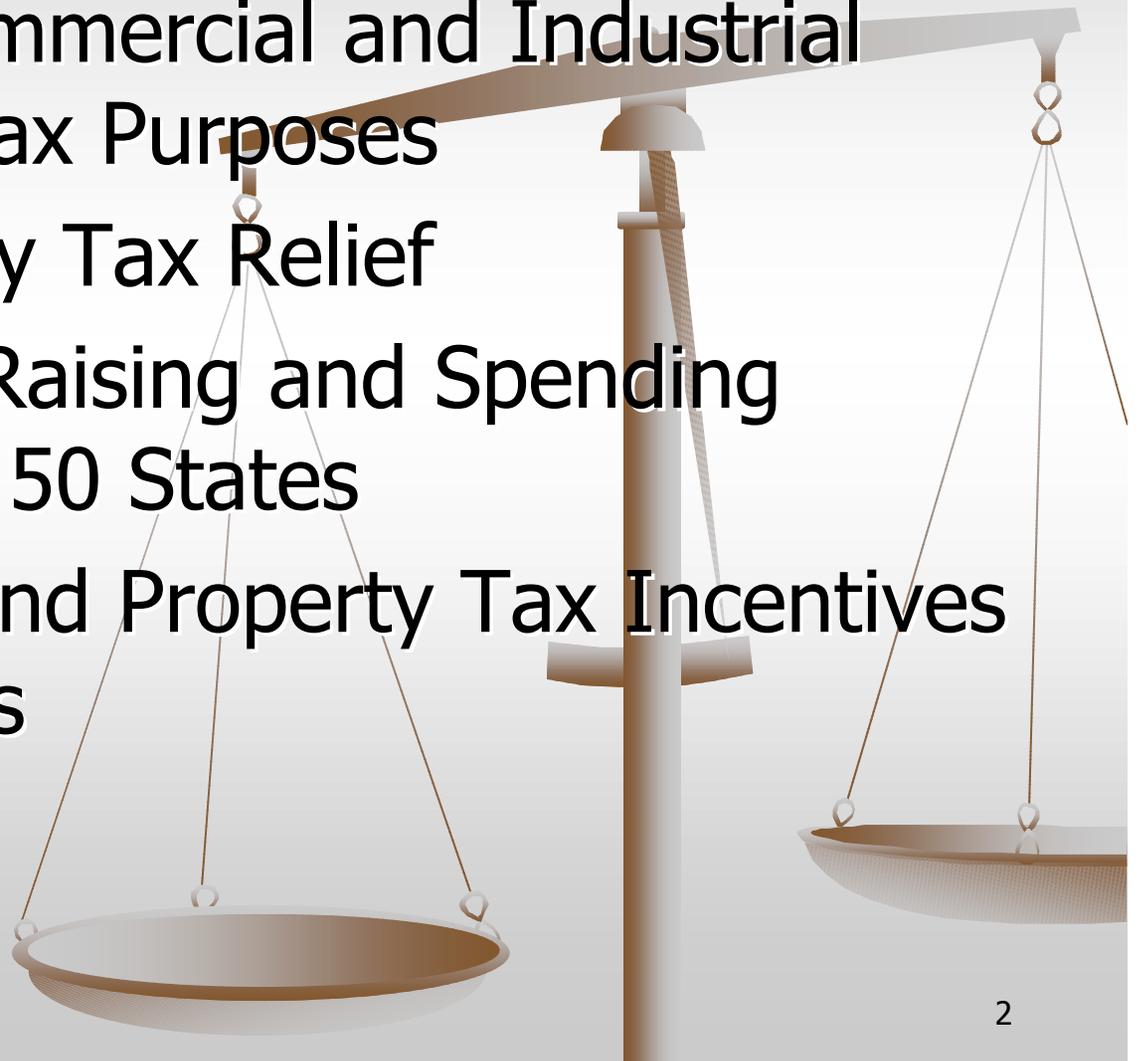


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**Prepared for**  
**Legislative Property Tax Study Committee**  
**Iowa General Assembly**  
**November 14, 2008**

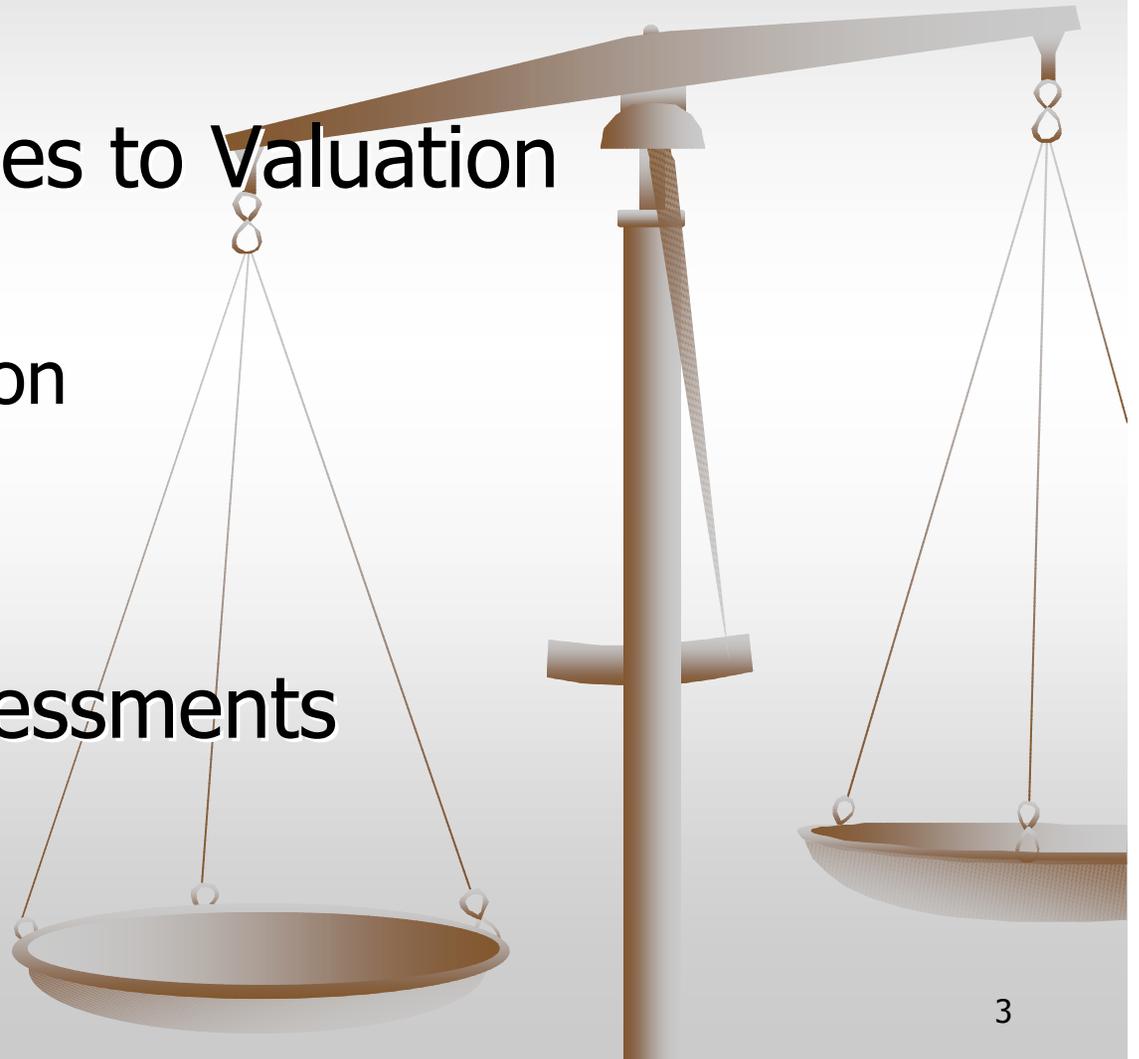
# Presentation Outline

- Valuation of Commercial and Industrial Properties for Tax Purposes
- Indirect Property Tax Relief
- Local Revenue Raising and Spending Patterns Across 50 States
- Smart Growth and Property Tax Incentives in State Statutes



# Ch. 1 Valuing Commercial and Industrial Properties

- Three Approaches to Valuation
  - Cost
  - Sales Comparison
  - Income
- Preferential Assessments



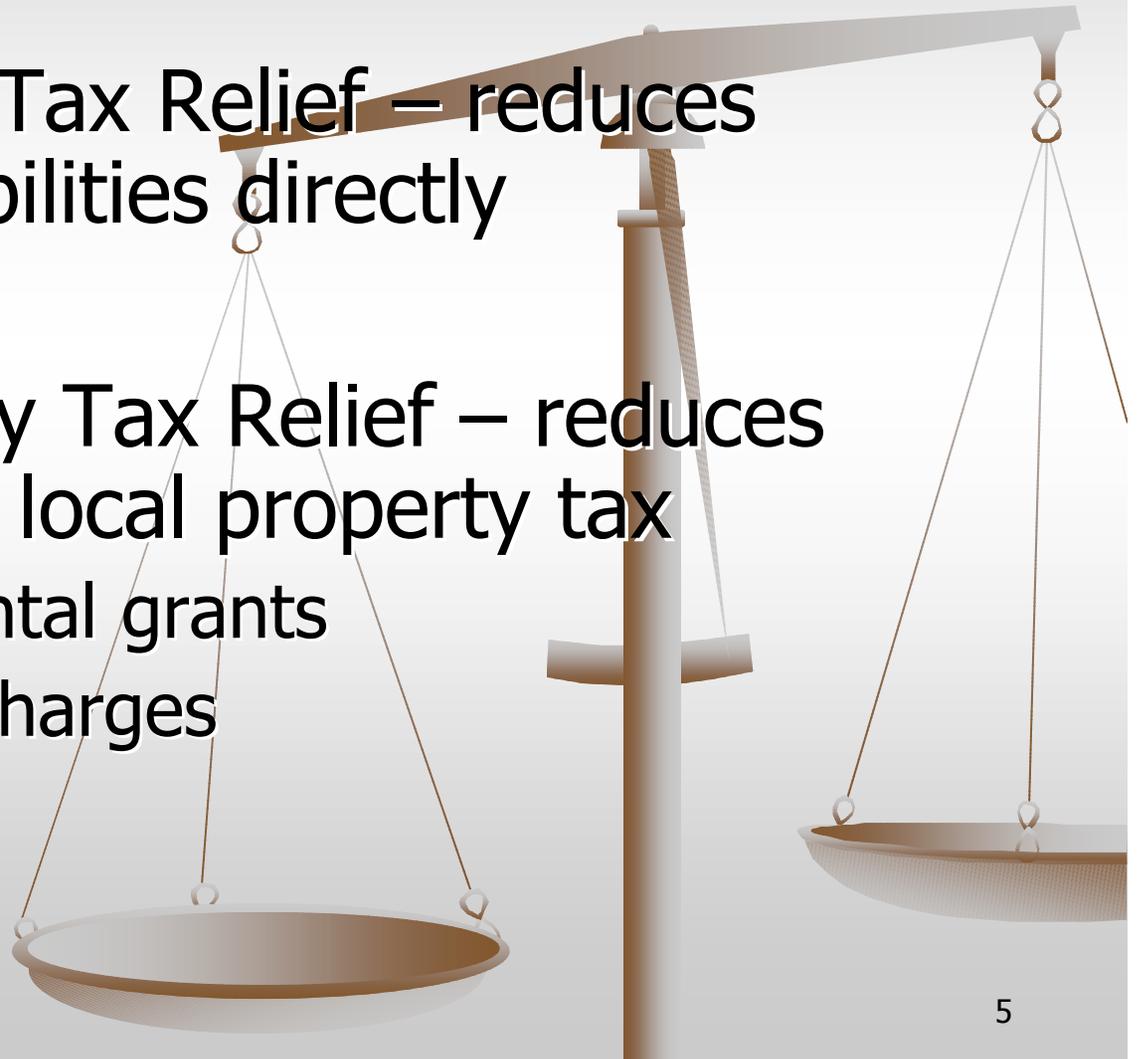
# Valuing Commercial and Industrial Properties: Current Practices

- GWIPP Survey
  - Methodology
  - Findings
- International Association of Assessing Officers Survey



# Ch. 2 Indirect Property Tax Relief

- Direct Property Tax Relief – reduces property tax liabilities directly
- Indirect Property Tax Relief – reduces pressure on the local property tax
  - Intergovernmental grants
  - User fees and charges



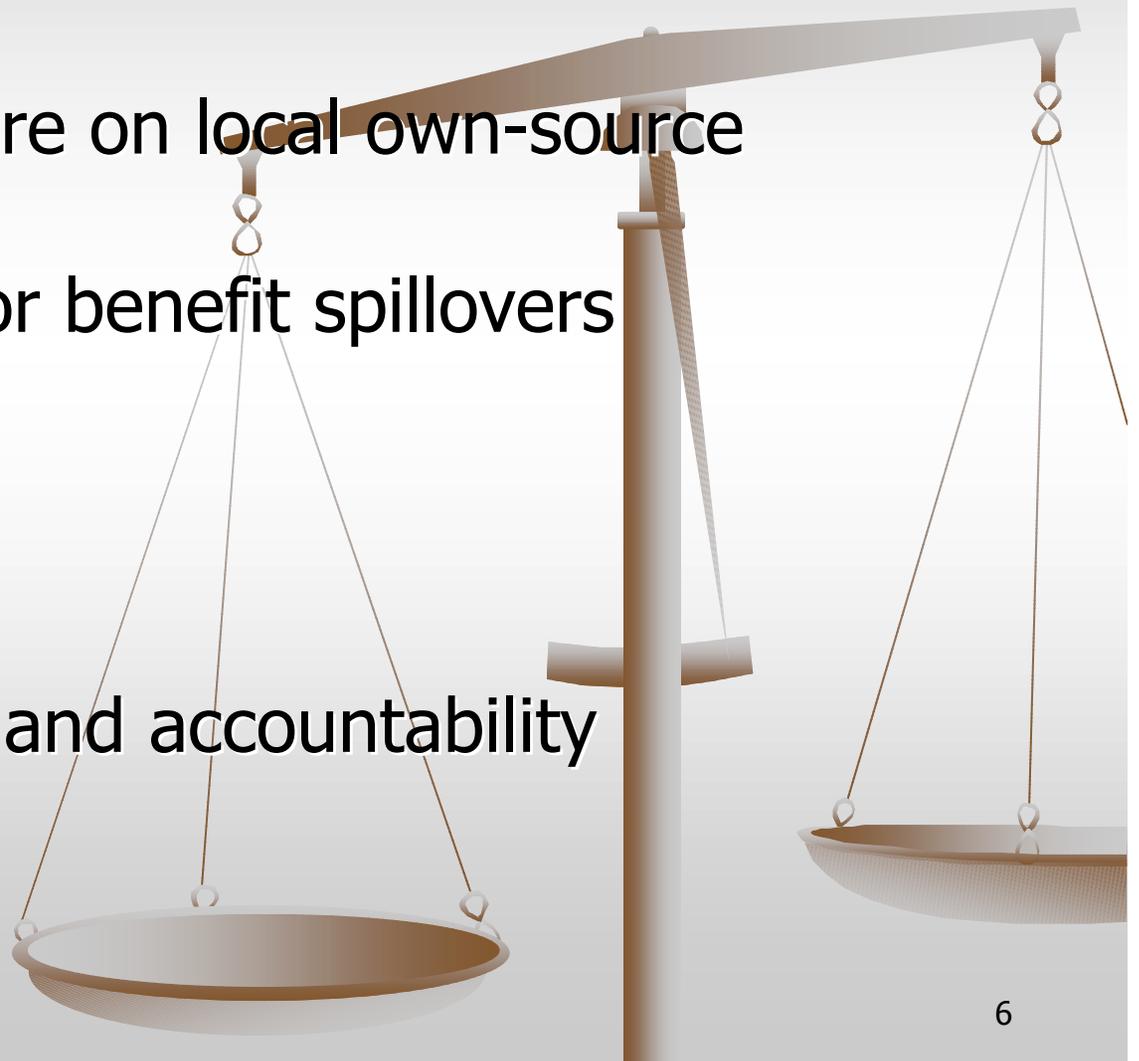
# Intergovernmental Aid

## ■ Strengths

- Reduces pressure on local own-source revenues
- Compensates for benefit spillovers

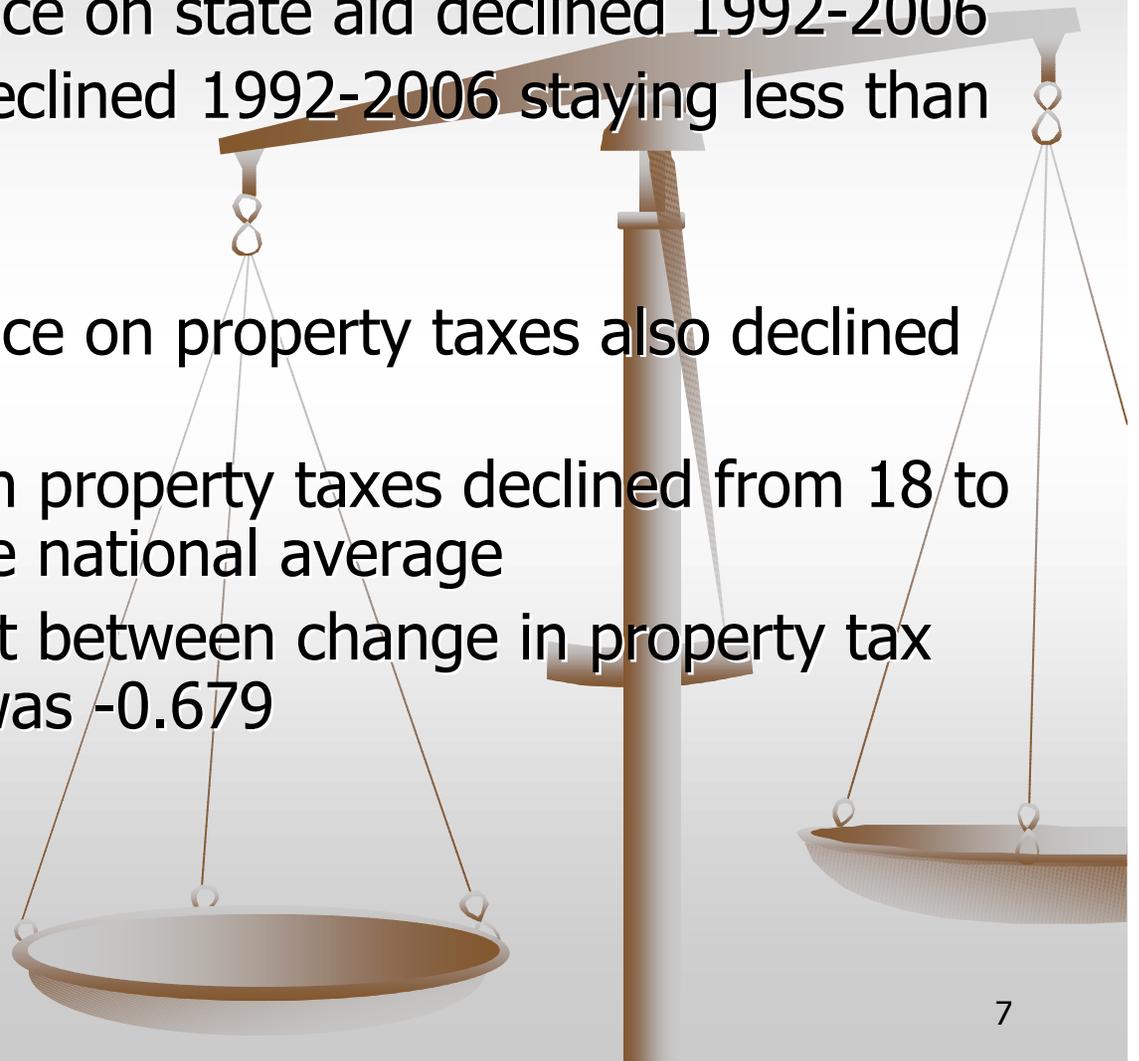
## ■ Limitations

- Unreliability
- Less autonomy and accountability
- Efficiency



# Trends in Intergovernmental Aids

- Nationally local reliance on state aid declined 1992-2006
- Iowa local reliance declined 1992-2006 staying less than the national average
- Nationally local reliance on property taxes also declined 1992-2006
- Iowa local reliance on property taxes declined from 18 to just 10 percent above national average
- Correlation coefficient between change in property tax and state aid share was  $-0.679$



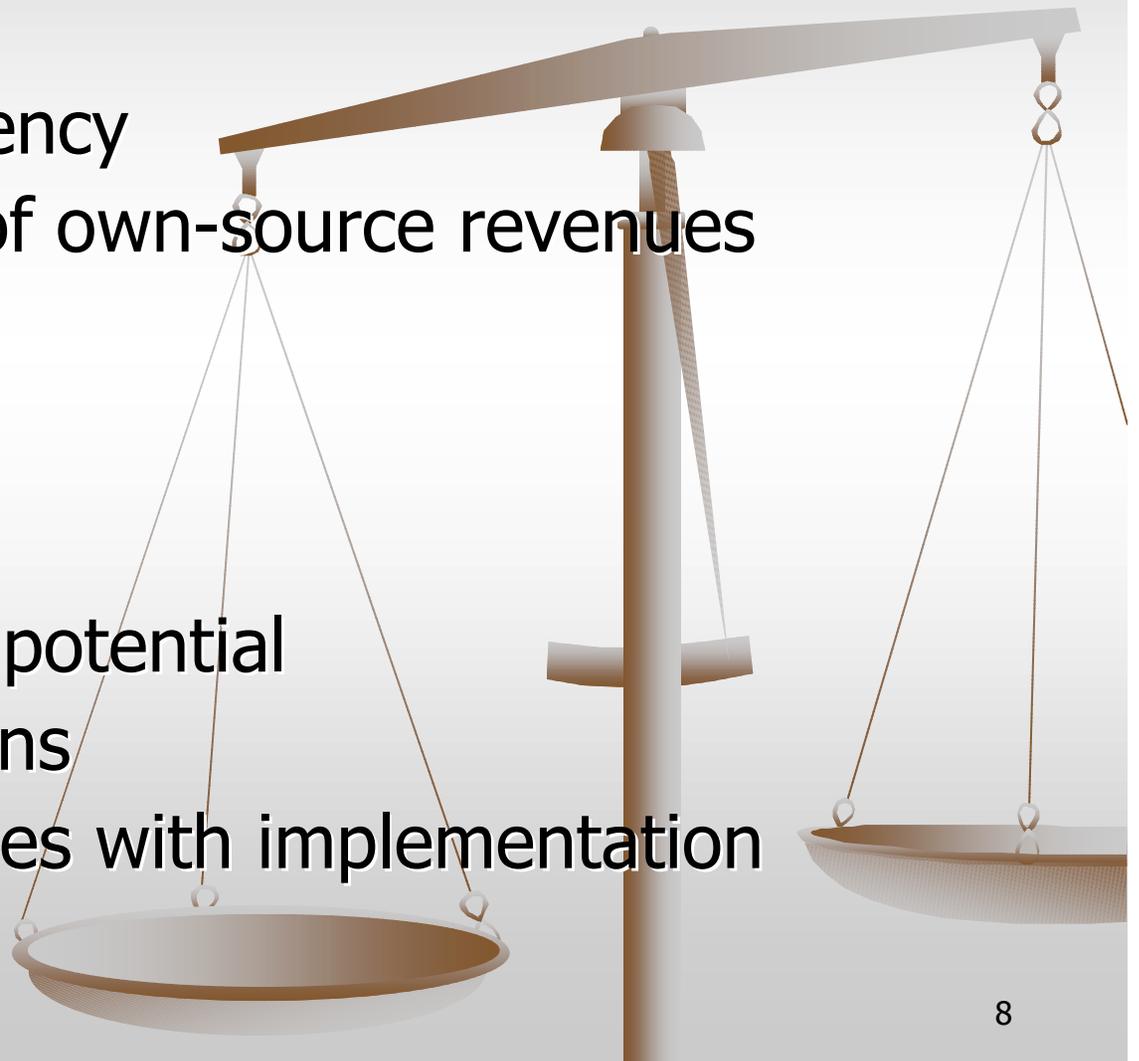
# User Fees and Charges

## ■ Strengths

- Economic efficiency
- Diversification of own-source revenues
- Local control

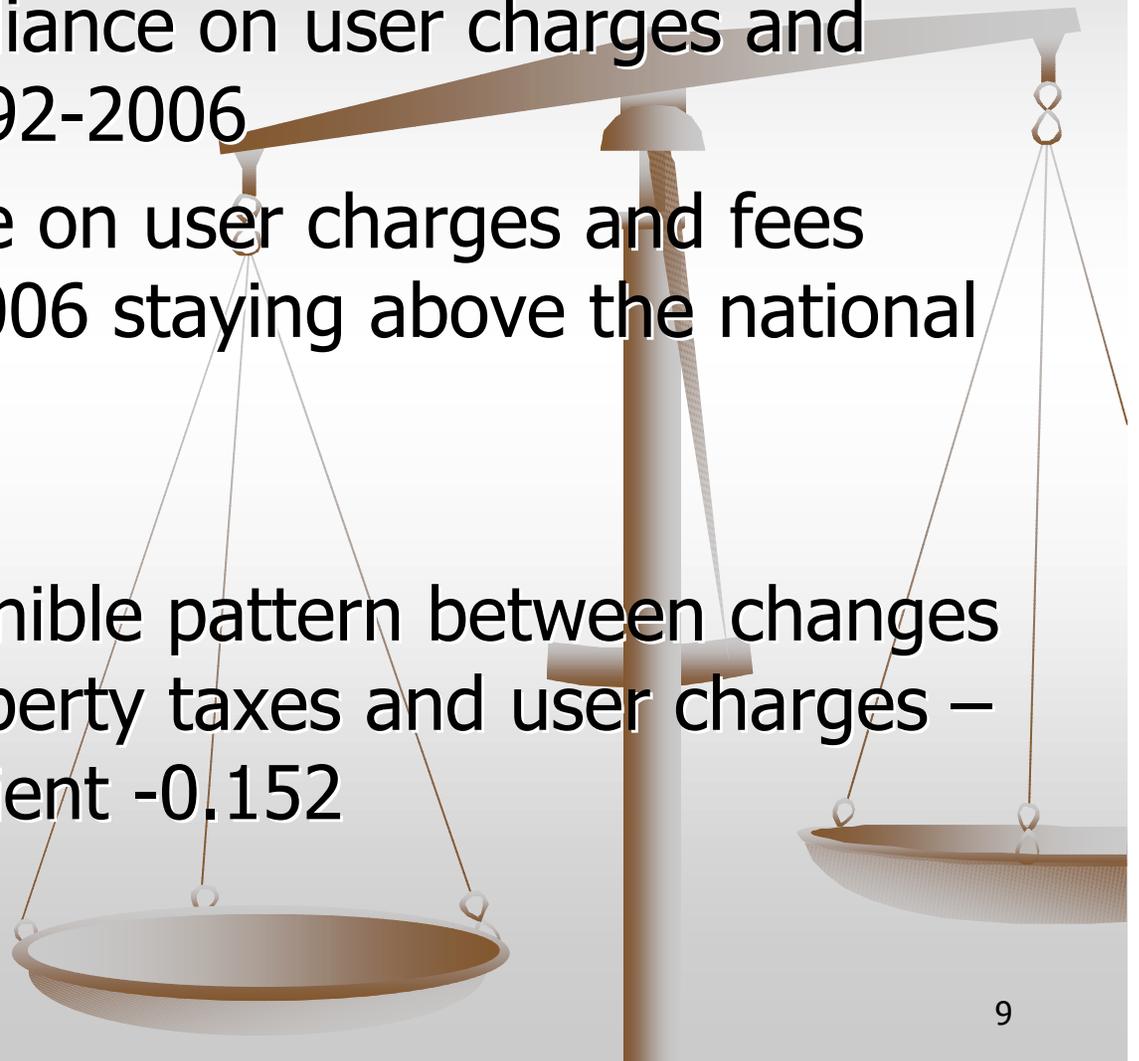
## ■ Limitations

- Limited growth potential
- Fairness concerns
- Conceptual issues with implementation



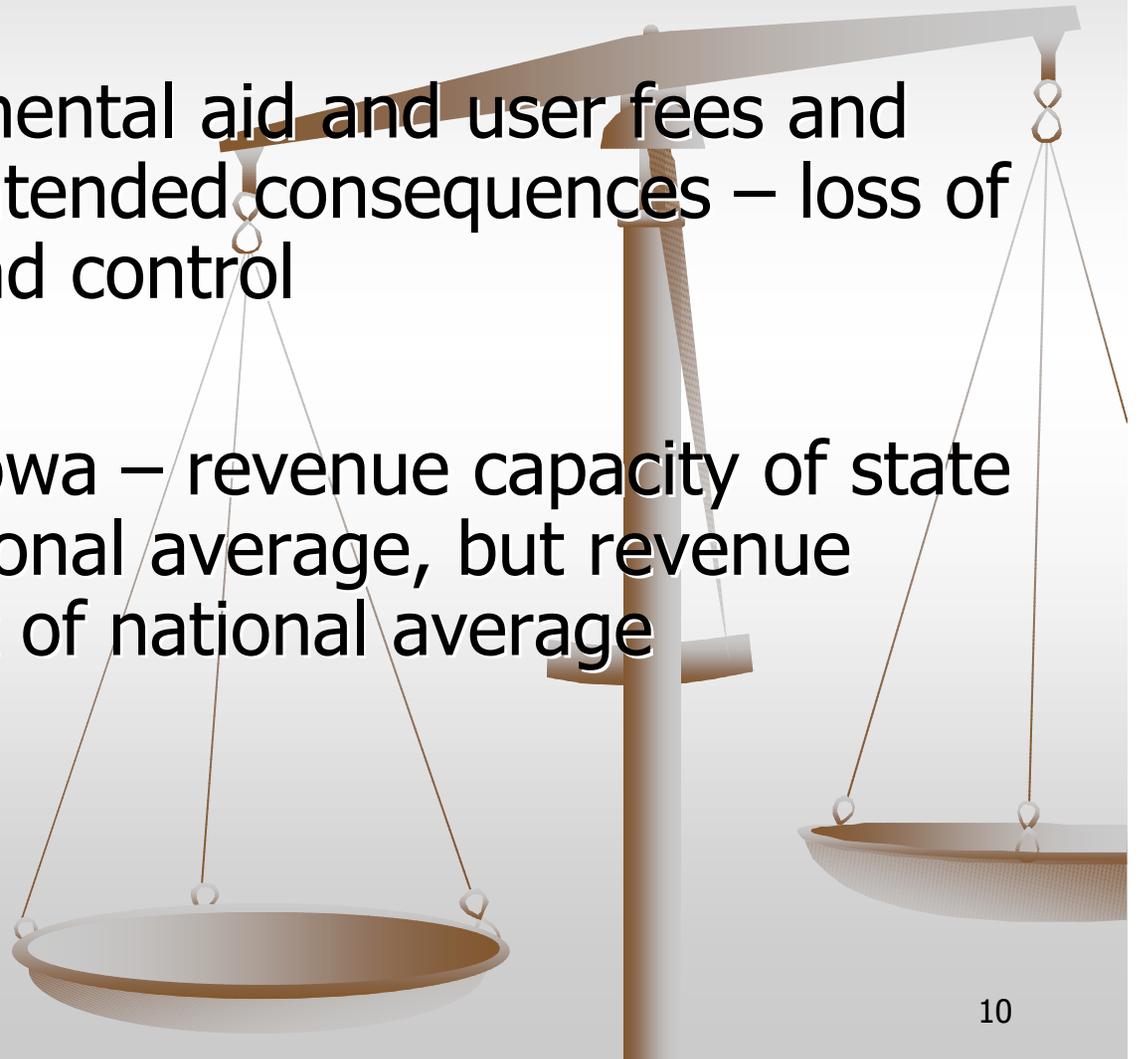
# Trends in User Fees and Charges

- Nationally local reliance on user charges and fees increased 1992-2006
- Iowa local reliance on user charges and fees increased 1992-2006 staying above the national average
- There is no discernible pattern between changes in reliance on property taxes and user charges – correlation coefficient  $-0.152$



# Final Observations

- Both intergovernmental aid and user fees and charges have unintended consequences – loss of local autonomy and control
- Implications for Iowa – revenue capacity of state 94 percent of national average, but revenue effort 104 percent of national average



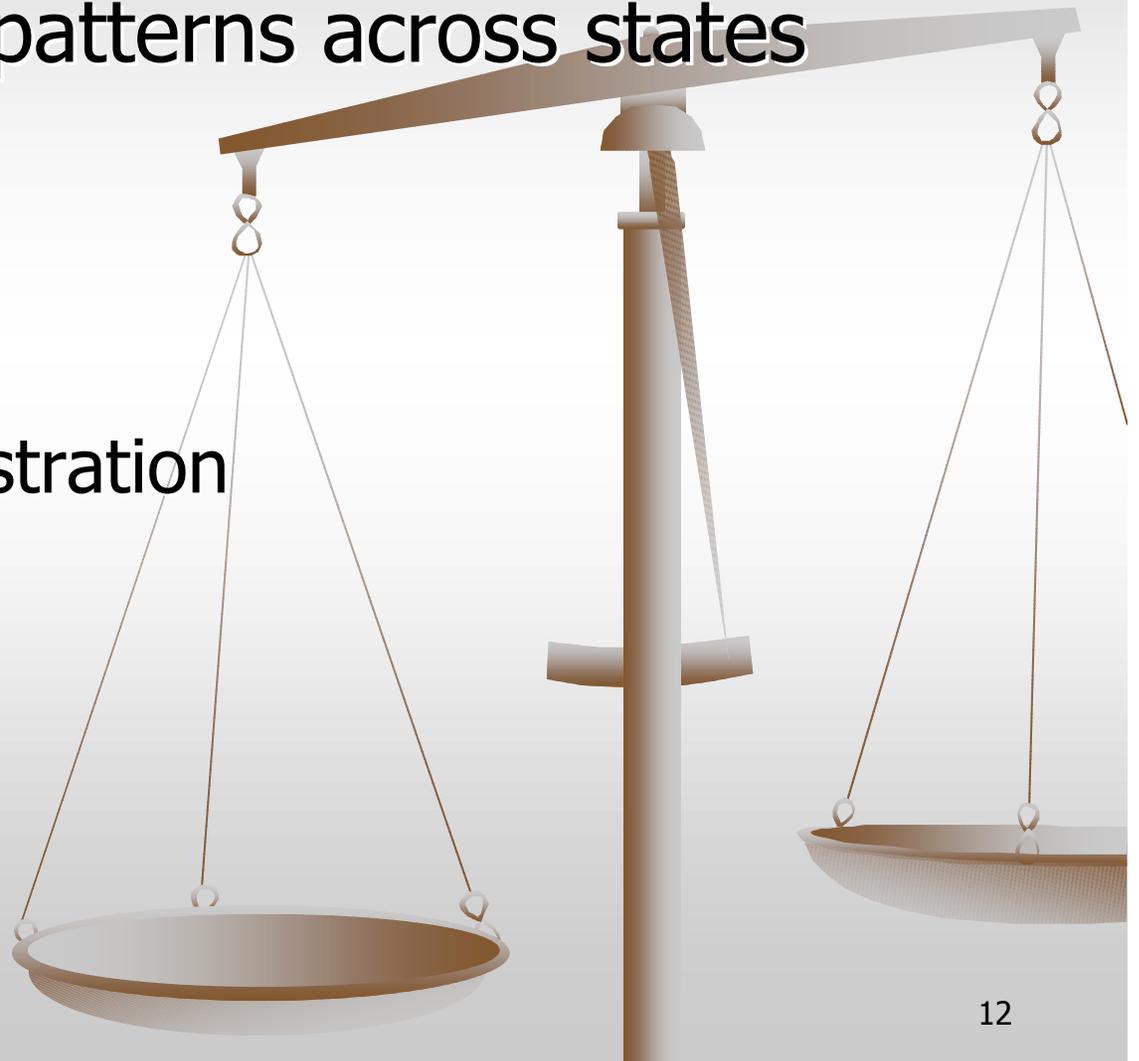
# Ch. 3 Local Revenue Raising and Spending Patterns

- Variations in size of local public sector
- Financing local governments
  - Intergovernmental and own source revenues
    - nationally and in Iowa
  - Own source revenues
    - Taxes
    - Current charges
    - Miscellaneous general revenues



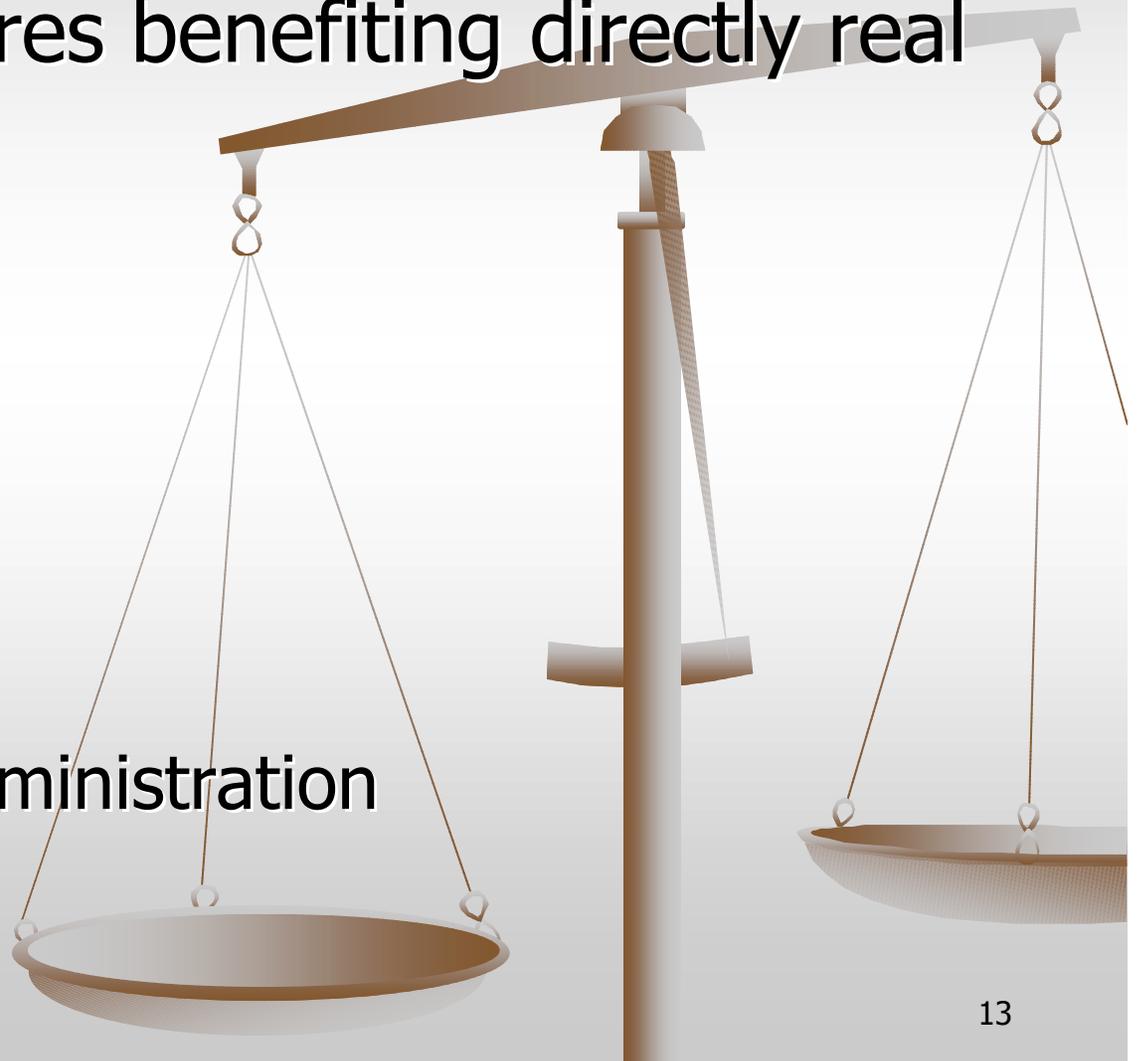
# Local Expenditure Patterns

- Local spending patterns across states
  - Education
  - Public safety
  - Transportation
  - General administration
  - Public welfare



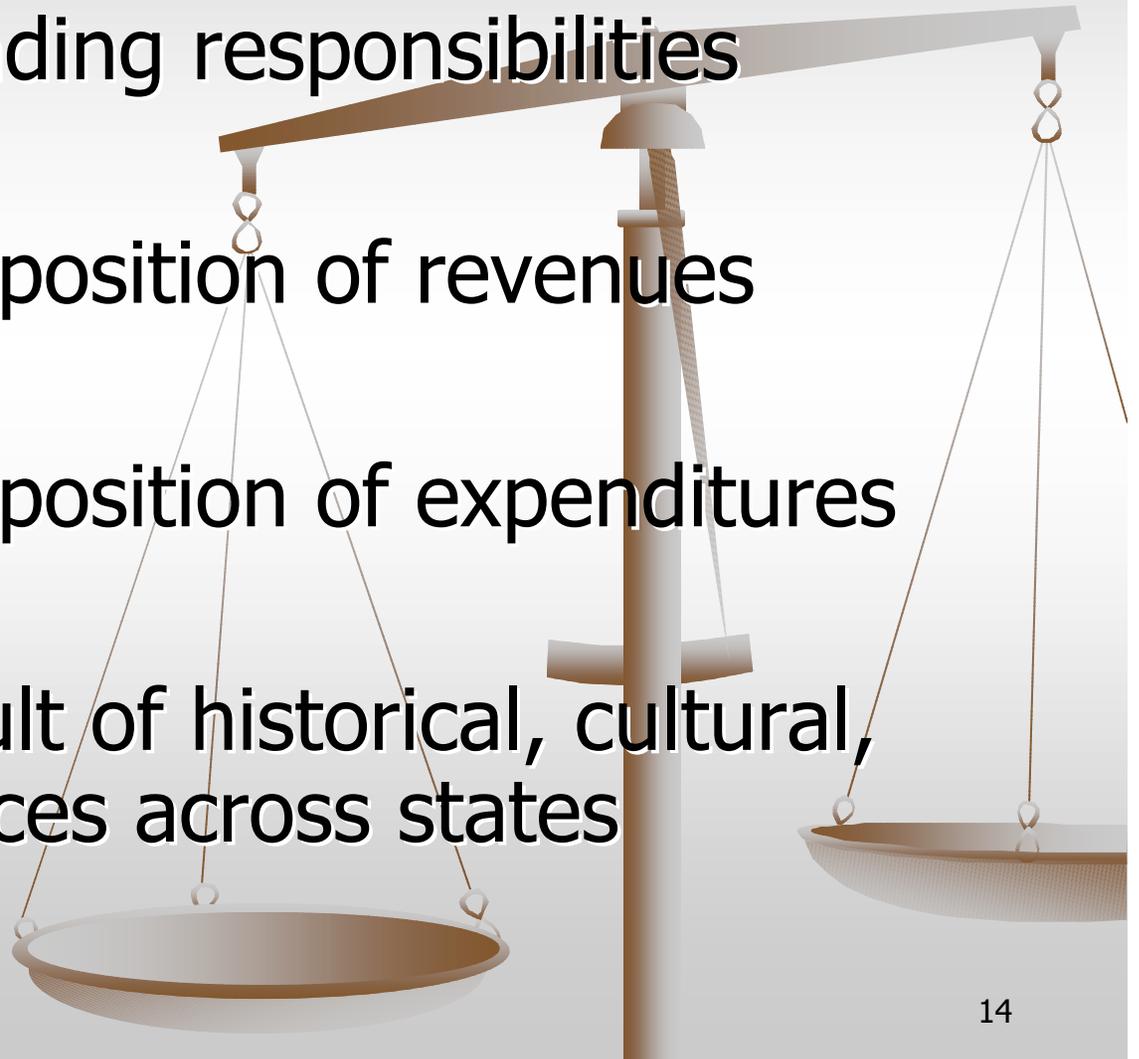
# Local Spending Impacting Individual Properties

- Local expenditures benefiting directly real properties
  - Education
  - Health
  - Transportation
  - Public Safety
  - Sewerage
  - Government administration



# Conclusions

- Variation across states in local revenue raising and spending responsibilities
- Variation in composition of revenues
- Variation in composition of expenditures
- Variations a result of historical, cultural, political differences across states



# Ch. 4: Smart Growth and Property Tax Incentives in State Statutes

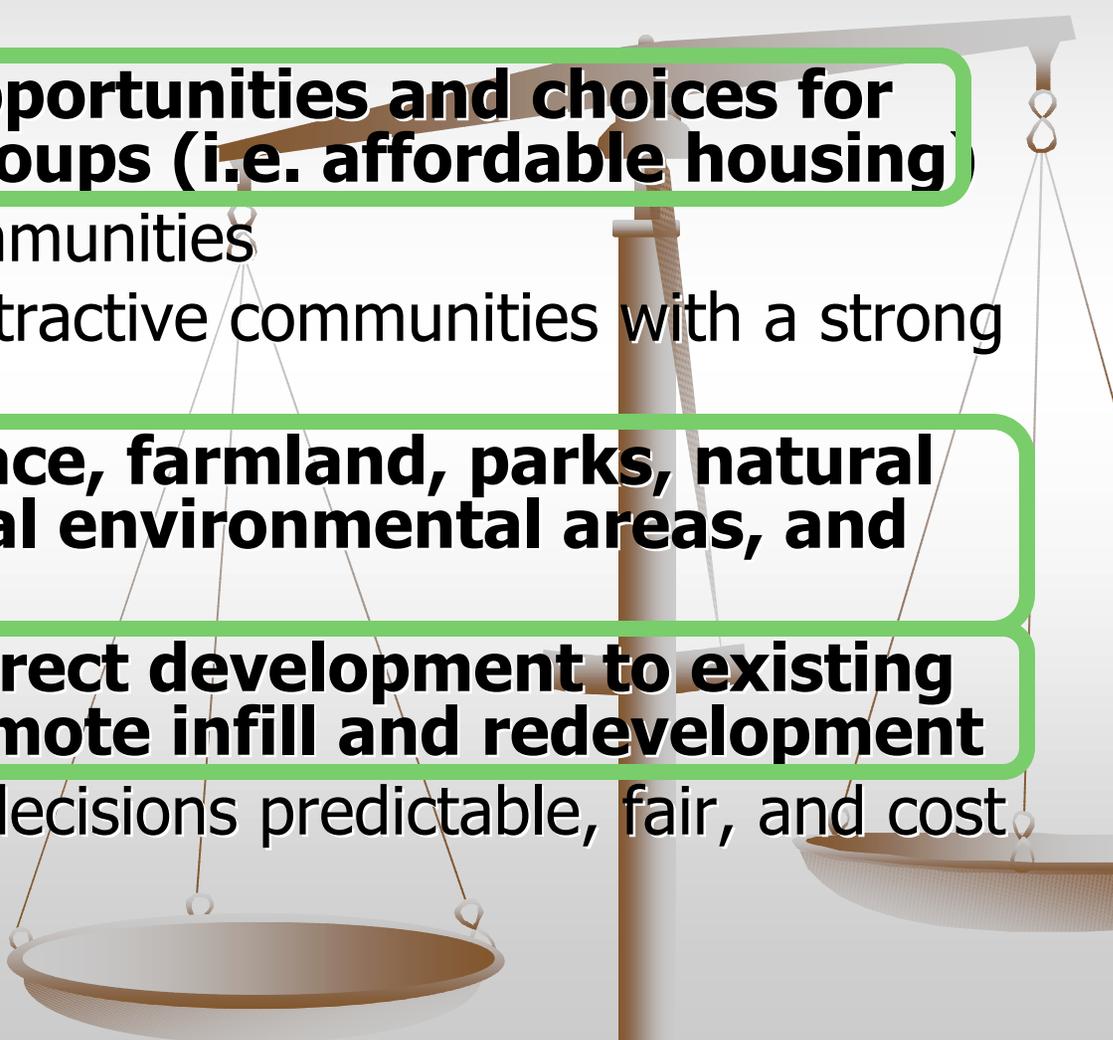


# Smart Growth

Plan, develop, and revitalize urban and rural areas to curb sprawl and improve the quality of life.



# Framework



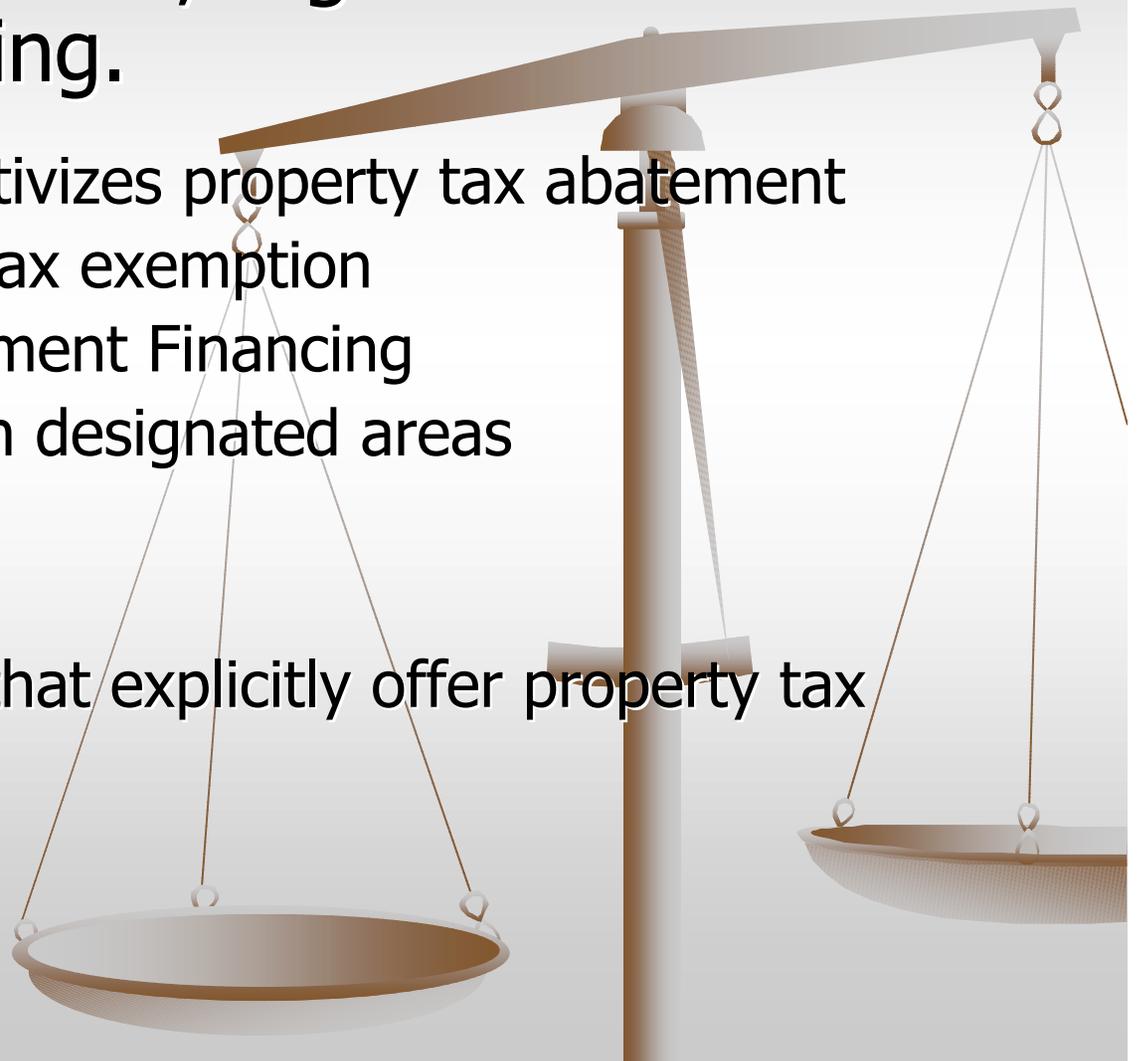
- Mix land uses
- **Create housing opportunities and choices for diverse income groups (i.e. affordable housing)**
- Create walkable communities
- Foster distinctive, attractive communities with a strong sense of plan
- **Preserve open space, farmland, parks, natural beauty, and critical environmental areas, and ecosystems**
- **Strengthen and direct development to existing communities, promote infill and redevelopment**
- Make development decisions predictable, fair, and cost effective

# Housing

Goal: Strategic growth, region-wide affordable housing.

- Authorizes and incentivizes property tax abatement
- Authorizes property tax exemption
- Authorizes Tax Increment Financing
- Requires incentives in designated areas

Appendix: Six statutes that explicitly offer property tax incentives



# Open Space

- Goal: Mitigate sprawl, provide recreation space, farm land, habitats, natural beauty, *etc.*
- Authorizes Easement
- Incentive for Easement
- Property Tax exemption
- Real Estate Transfer Tax Exemption

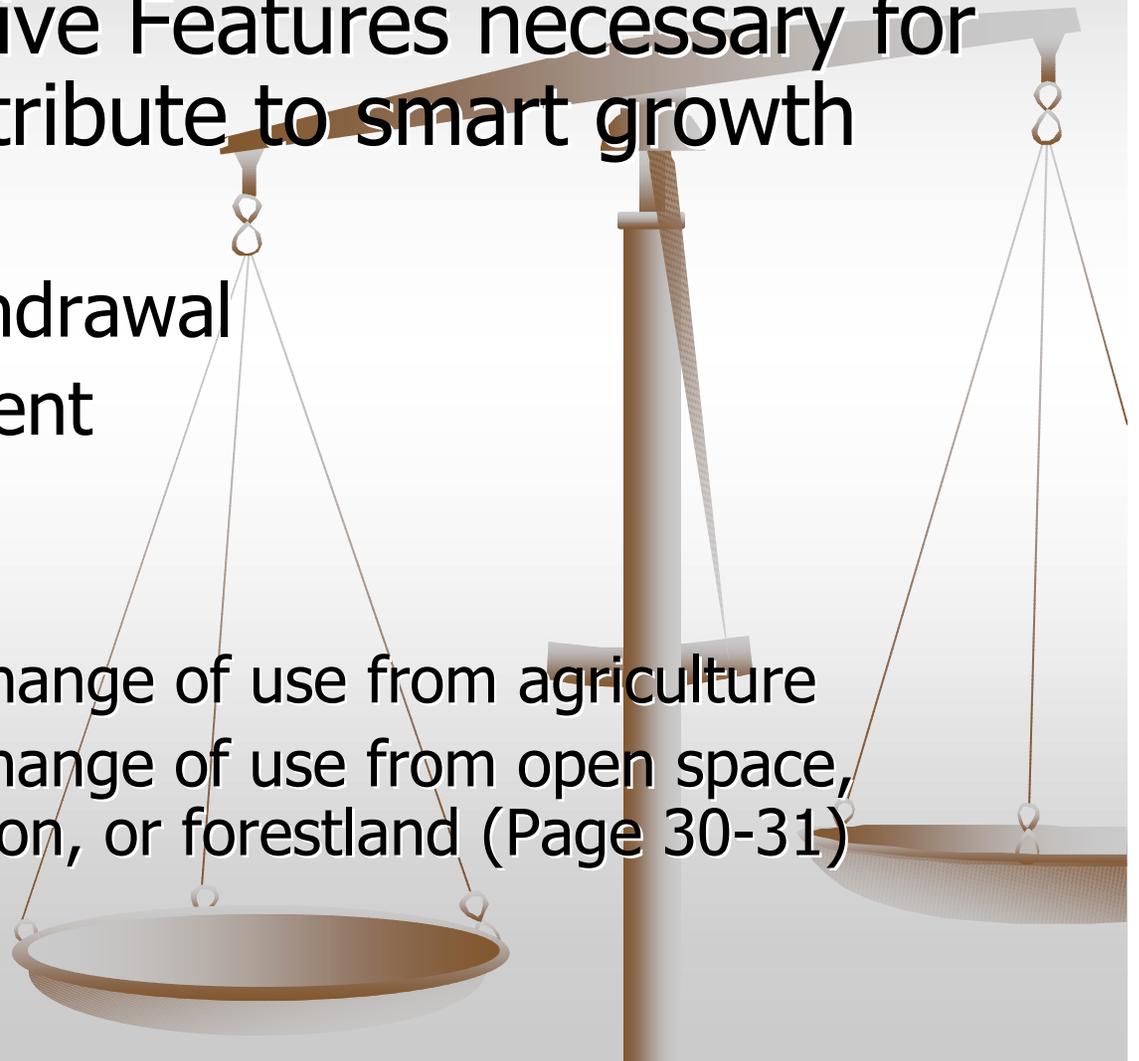
Appendix: 20 statutes that explicitly offer property tax incentives



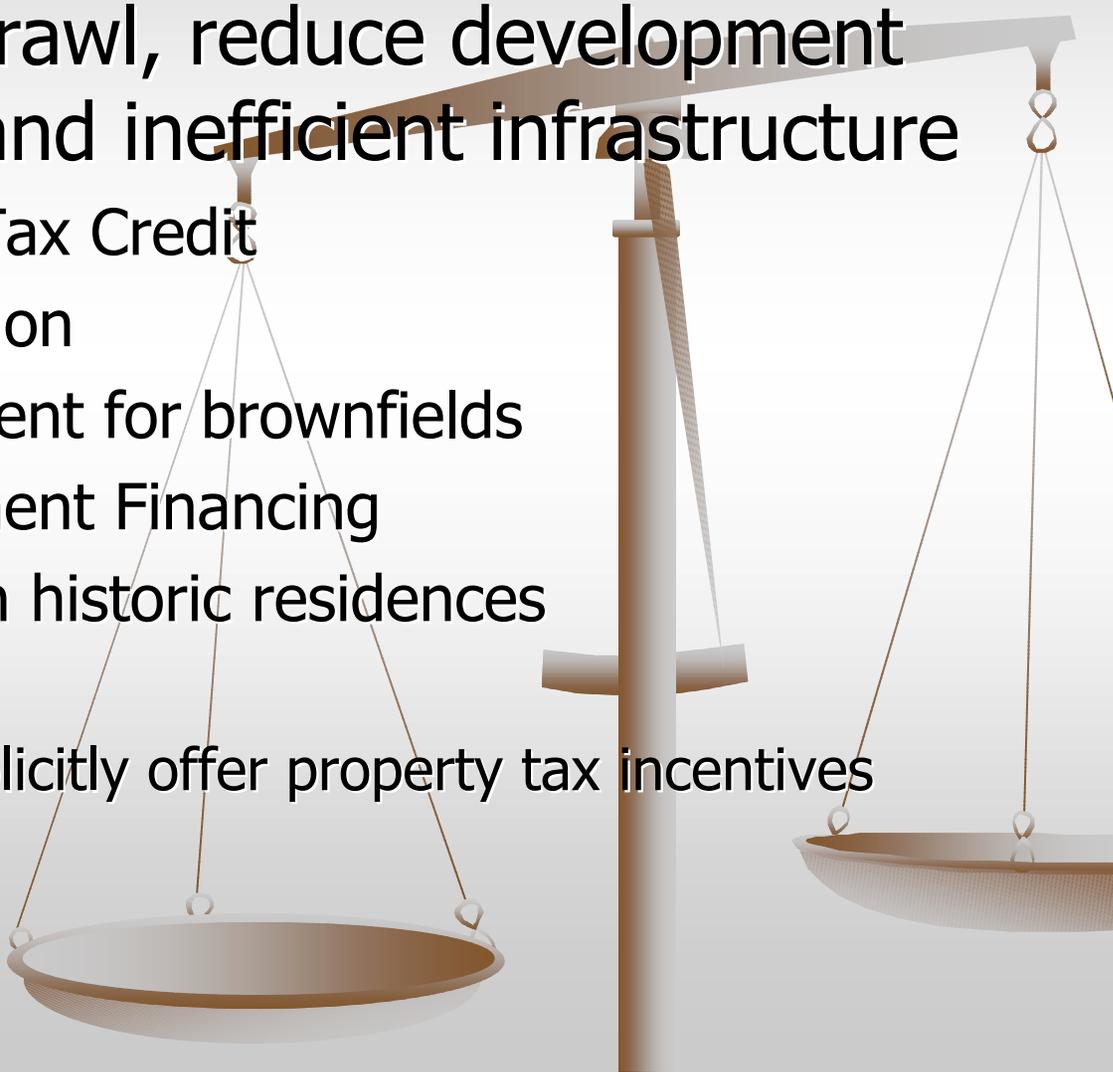
# Open Space: Preferential Assessment Programs

- Key Administrative Features necessary for program to contribute to smart growth goals
  - Penalty for Withdrawal
  - Time Commitment

27 states penalize change of use from agriculture  
23 states penalize change of use from open space,  
parks and recreation, or forestland (Page 30-31)



# Redevelopment and Infill



- Goal: Mitigate sprawl, reduce development on urban fringe and inefficient infrastructure
- Authorizes Property Tax Credit
- Property Tax Exemption
- Property Tax Abatement for brownfields
- Authorize Tax Increment Financing
- Assessment freeze on historic residences

Appendix: 17 statutes explicitly offer property tax incentives

# Conclusion

- “Smart growth” has different meanings in different states
- States primarily use zoning and regulation tools
- Property tax incentives are used to promote smart growth in the areas of housing, open space, and redevelopment

